



Excise Tax Advisory

Excise Tax Advisories (ETAs) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

Number: 2012-5S.08.12.13601

Issue Date: March 31, 2003

Manufacturers' Machinery and Equipment Exemption — Design and Product Development

The Department has issued a series of Excise Tax Advisories (ETAs) to address questions regarding the retail sales and use tax exemption provided by RCW 82.08.02565 and 82.12.02565, commonly referred to as the manufacturers' machinery and equipment exemption (M&E exemption). This advisory, ETA 2012-5S, is issued to address the application of the M&E exemption to design and product development. Please refer to ETA 2012.08.12.13601 for a current list of the issues covered by this series.

Questions have been raised regarding whether machinery and equipment used for design and product development purposes is eligible for the M&E exemption. In terms of manufacturers engaging in research and development, this ETA only addresses "design" that is not "research and development" as that term is used in chapter 82.63 RCW.

The manufacturers' machinery and equipment exemption is directed toward activity that takes place from the point where raw materials enter the manufacturing site to the point where processed materials leave the manufacturing site. This range of activity is referred to in the M&E statute as the "manufacturing operation." Design is an activity that precedes or is separate from actual manufacturing and is not part of the "manufacturing operation," as that phrase is defined in the M&E statute. Design includes engineering, and other analytical and creative work.

The Department makes a distinction between activities that take place within the manufacturing operation and activities that either precede or follow the manufacturing operation. For example, creation and design of information, such as writing text for a newspaper, is an activity that takes place before the manufacturing operation begins. However, the preparation of this information for use in a manufactured product, is an activity that generally occurs in the manufacturing operation. Composition of a book or the writing of a newspaper article are activities that are considered product development and outside of the manufacturing operation, and thus are not considered to be within the scope of the M&E exemption. Similarly, design of an automobile, or engineering of a piston are considered product development and outside of the manufacturing operation. However, taking a completed manuscript and preparing it for printing could be part of the manufacturing operation, as could be the layout and pagination of a newspaper. Other products that have information content, such as compact discs and music are subject

Advisories numbered as 2 plus three digits (e.g. 2002.16.179) are advisories issued on or after July 2, 1998.

To inquire about the availability of receiving this document in an alternate format for the visually impaired or assistance in language other than English, please call (360) 486-2342. Teletype (TTY) users please call 1-800-451-7985.

Please direct comments to:
Department of Revenue
Legislation & Policy Division
P O Box 47467
Olympia, WA 98504-7467
eta@DOR.wa.gov

to the same tax application. Essentially, the creation of the information is not manufacturing and is not part of the manufacturing operation. Property that is used both in product development and in manufacturing of tangible personal property may be eligible for the M&E exemption, if all other requirements of the exemption are met.

Presumption

The Department will presume that design activity is not part of the manufacturing operation and machinery and equipment used in design is not eligible for the M&E exemption. Equipment used in redesign or refinement of a product after manufacturing has begun is not eligible for the M&E exemption. This presumption can be overcome by showing that the design decisions and the application of labor and skills to the raw materials are the same activity.